

# Transcript of Proceedings

DEPARTMENT OF ENERGY

NATIONAL PETROLEUM COUNCIL

Washington, DC.

March 8, 1979

**Acme Reporting Company**

*Official Reporters*

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DEPARTMENT OF ENERGY

NATIONAL PETROLEUM COUNCIL

Auditorium  
Forrestal Building  
1,000 Independence Avenue, SW  
Washington, D. C.

Thursday, March 8, 1979

REPORTER'S TRANSCRIPT

Reported by: EUGENE ARNOW

1 The meeting convened at 9:04 a.m., pursuant to notice,  
2 Chairman Collis P. Chandler, Jr.  
3 presiding.

4 DEPARTMENT OF ENERGY STAFF

5 James R. Schlesinger, Secretary of Energy  
6 William Fischer, Special Assistant to the Secretary of Energy  
7 Alvin L. Alm, Assistant Secretary of Energy for  
8 Policy and Evaluation

9 NATIONAL PETROLEUM COUNCIL MEMBERS

10 Kenneth Belieu, Executive Director  
11 Marshall Mitchell, Deputy Executive Director  
12 Robert V. Sellers, Chairman, Committee of Storage and  
13 Transportation  
14 Chairman of the Board, Consolidated Natural Gas Company  
15 Charles H. Murphy, Jr., Vice Chairman; Chairman of the Board,  
16 Murphy Oil Corporation  
17 John P. Harbin, Chairman, Committee of Materials and  
18 Manpower; Chairman of the Board and Chief Executive Officer,  
19 Halliburton Company  
20 John F. Bookout, Chairman, Committee on Unconventional Gas  
21 Sources; President and Chief Executive Officer, Shell Oil  
22 Company  
23 Jerry McAfee, Chairman, Refinery Flexibility Committee;  
24 Chairman of the Board, Gulf Oil Corporation  
25 R. E. Bailey, Deputy Chairman, Continental Oil Company  
Robert A. Belfer, President, Belco Petroleum Corporation  
John Brumley, President and Chief Executive Officer,  
Southland Royalty Company  
Roy T. Durst, Consulting Engineer, Ft. Worth, Texas  
James H. Evans, Chief Executive Officer, Union Pacific  
Corporation

National Petroleum Council Members (Cont'd.)

F. D. Gottwald, Jr., Chief Executive Officer, Chairman of the Board and Chairman of the Executive Committee, Ethyl Corporation

Alvin F. Grospiron, President, Oil, Chemical and Atomic Workers International Union

Frederic C. Hamilton, President, Hamilton Brothers Oil Company

John D. Haun, President, American Association of Petroleum Geologists.

Denis Hayes, Senior Researcher, Worldwatch Institute.

Robert A. Hefner, III, Managing Partner, GHK Company

Robert R. Herring, Chairman of the Board and Chief Executive Officer, Houston Natural Gas Corporation

Ruth J. Hinerfeld, President, League of Women Voters of the United States.

Charles G. Koch, Chairman and Chief Executive Officer, Koch Industries

Paul W. McAvoy, The Milton Steinbach Professor of Organization and Management

John G. McMillian, Chairman of the Board and President, Northwest Energy Company

David Masselli, Assistant Legislative Director, Friends of the Earth

James R. Moffett, President McMoran Exploration Company

John Murrell, Chief Executive Officer and Chairman of the Executive Committee, Golyer and Mc Naughton Company

Frank Pitts, President, Pitts Oil Company

Rosemary S. Pooler, Chairwoman and Executive Director, New York State Consumer Protection Board.

Don Rice, Jr., President, Rand Corporation

NATIONAL PETROLEUM COUNCIL MEMBERS (Cont'd.)

Corbin J. Robertson, Chief Executive Officer, Quintana Petroleum Corporation

James C. Rosapepe, President, Rosapepe Fuchs & Associates

Henry A. Rosenberg, Jr., Chairman of the Board and Chief Executive Officer, Crown Central Petroleum Corporation

Ned C. Russo, President, Stabil-Drill Specialities, Inc.

Theodore Snyder, Jr., President, Sierra Club.

Martin Ward, President, United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry

Lee C. White, President, Consumer Energy Council of America

Alton W. Whitehouse, Jr., Chairman of the Board and Chief Executive Officer, Standard Oil Company of Cleveland, Ohio.

Joseph H. Williams, Chairman of the Board, The Williams Companies

COMMITTEE MEMBERS

John P. Harbin, Chairman, Committee on Materials and Manpower Requirements; Chairman of the Board and Chief Executive Officer, Halliburton Company

Jerry McAfee, Chairman, Committee on Refinery Flexibility  
Chairman of the Board, Gulf Oil Corporation

John F. Bookout, Chairman, Committee on Unconventional Gas Sources; President and Chief Executive Officer, Shell Oil Company

Robert V. Sellers, Chairman, Committee on U. S. Petroleum Inventories and Storage and Transportation Capacities

Kenneth E. Montague, Chairman, Finance Committee  
President, General Crude Oil Company

1 COMMITTEE MEMBERS (Cont'd.)

2 Charles E. Spahr, Chairman, Nominating Committee

6  
7 MEMBERS SENDING ALTERNATES

ALTERNATE

8 Jack Allen, President  
Alpar Resources, Inc.

Lloyd Uppsala

9 Theodore A. Burtis, President  
and Chief Executive Officer  
10 Sun Company of Radnor,  
11 Pennsylvania

John Olson

12  
13  
14 The following reports were received, issued or a-proved  
15 by the Committees:

16 Committee on Materials and Manpower Requirements

17 Committee on Refinery Flexibility

18 Committee on Unconventional Gas Sources

19 Committee on U.S. Petroleum Inventories, and Storage  
and Transportation Capacities

20 Finance Committee

21 Nominating Committee

I N D E XAGENDA ITEM

Opening Remarks by Chairman Chandler

Remarks of the Honorable James R.  
Schlesinger, Secretary of Energy

Introduction of New Members,  
William Fischer, Special Assistant to  
the Secretary of Energy

Progress reports of NPC Committees:

Report of John P. Harbin, Chairman,  
Committee on Materials and Manpower Requirements

Report of Jerry McAfee, Chairman,  
Committee on Refinery Flexibility

Report of John F. Bookout, Chairman  
Committee on Unconventional Gas Sources

Report of Robert V. Sellers, Chairman,  
Committee on U. S. Petroleum Inventories,  
and Storage and Transportation Capacities

Report of the Executive Director,  
Kenneth E. BeLieu

Report of Kenneth E. Montague, Chairman,  
Finance Committee

Report of Charles E. Spahr, Chairman,  
Nominating Committee

Memorial Resolution to Carrol M. Bennett,  
by Edwin L. Cox

P R O C E E D I N G S

CHAIRMAN CHANDLER: Gentlemen, let me call to order the 77th meeting of the National Petroleum Council. You have before you a copy of this morning's agenda, but before we begin it, I would like to take just a minute to explain the purpose of the Council to those of you that have not previously been associated with our activity.

The purpose of the Council is to provide advice, information and recommendations to the Secretary of Energy on matters relating to the oil and gas or the oil and gas industries.

This service is performed in response to specific requests from the Secretary. You will hear the progress of several such reports today. It is also worthwhile to restate what the Council is not. It is not a trade association and does not engage in any of the usual trade association activities and it is not a forum for personal efficacy.

Our first item of business would be the roll call, but I am informed by Marshall Mitchell, Deputy Executive Director, that we have a quorum this morning and we will dispense with the calling of the roll. If you did not check in at the desk as you entered, please do so before you leave.

Let me take a minute to introduce the persons at the head table. Starting from the right, your left, is Bob Sellers, Chairman of the Committee of Storage and Transportation;



1 next to Bob is Charlie Murphy, our Vice Chairman; next to  
2 Charlie is the Honorable Alvin L. Alm, Assistant Secretary of  
3 Energy for Policy and Evaluation. Secretary Alm serves as  
4 a good government Co-Chairman of the Council's Committee on  
5 Refinery and Flexibility. The next gentleman is the Secretary  
6 of Energy, Jim Schlessinger. On the far left over there, your  
7 far right, is Jack Harbin, Chairman of the Committee of Materials  
8 and Manpower Requirement. Next to Jack is John Bookout,  
9 Chairman of the Committee on Unconventional Gas Sources. Beside  
10 John is Jerry McAfee, Chairman of the Refinery Flexibility  
11 Committee. Then, of course, is Ken BeLieu, Executive Director  
12 for the National Petroleum Council.

13 Mr. Secretary, we are pleased to have you with us  
14 this morning and would you like to address the Council at  
15 this time? Mr. Bill Fisher, Special Assistant to the Secretary  
16 of Energy, will introduce the new members.

17 MR. FISHER: I am pleased to have this administerial  
18 duty and it will be useful, I think, if as each of these new  
19 members is introduced, he would stand to be recognized. First,  
20 Mr. Jack Allen of Alpar Resources, Inc. of Perryton, Texas.

21 VOICE: Mr. Allen regrets he could not be here for  
22 his first meeting as a new member. I am Lloyd \_\_\_\_\_; he  
23 asked me to sit in as his alternate.

24 MR. FISHER: Mr. R. E. Bailey of Continental Oil  
25 Company of Stamford, Connecticut. Mr. Robert A. Belfer,

1 President of Belco Petroleum Company, New York. Next is Mr.  
2 John Brumley, President and Chief Executive Officer, South-  
3 land Royalty Company, Ft. Worth. Next is Theodore A. Burtis,  
4 President and Chief Executive Officer, Sun Company of Radnor,  
5 Pennsylvania.

6 VOICE: Mr. Chairman, Mr. Burtis regrets that he  
7 could not be here. I am John Olson, substituting.

8 MR. FISHER: Nice to have you with us, Mr. Olson.  
9 Next is Mr. Roy T. Durst, Consulting Engineer, Ft. Worth,  
10 Texas. Next is Mr. James H. Evans, Chief Executive Officer,  
11 Union Pacific Corporation, New York. Nice to have you with  
12 us, sir.

13 Next is Mr. F. D. Gottwald, Jr., Chief Executive  
14 Officer, Chairman of the Board and Chairman of the Executive  
15 Committee, Ethyl Corporation. Next is Mr. Alvin F. Grospiron,  
16 President of the Oil, Chemical and Atomic Workers Inter-  
17 national Union, Denver. Mr. Grospiron, it is nice to have  
18 you with us.

19 Next we have Mr. Frederic C. Hamilton, President,  
20 Hamilton Brothers Oil Company, Denver, Colorado. Next is  
21 Mr. John D. Haun, President, American Association of Petroleum  
22 Geologists. Next is Mr. Denis Hayes, Senior Researcher,  
23 Worldwatch Institute. Next is Mr. Robert A. Hefner, III,  
24 Managing Partner, GHK Company, Oklahoma City. Next is Mr.  
25 Robert R. Herring, Chairman of the Board and Chief Executive

1 Officer, Houston Natural Gas Corporation, Houston, Texas.

2 Next is Ruth J. Hinerfeld, President, League of  
3 Women Voters of the United States, Washington, D.C. Nice to  
4 have you with us. Next is Mr. James L. Ketelsen, Chairman  
5 of the Board and Chief Executive Officer, Tenneco, Inc.

6 MR. RATNOR: Mr. Ketelsen regrets that he could not  
7 be here. I am Cliff Ratnor standing in for him.

8 MR. FISHER: Nice to have you with us, sir. Next  
9 is Mr. Charles G. Koch, Chairman and Chief Executive Officer,  
10 Koch Industries, Wichita, Kansas. Next is Paul W. McAvoy,  
11 The Milton Steinbach Professor of Organization and Management  
12 and Economics, The Yale School of Organization and Management  
13 in New Haven, Connecticut.

14 Next is Mr. John G. McMillian, Chairman of the Board  
15 and President, Northwest Energy Company, Salt Lake City. Next  
16 is Mr. C. E. Marsh, II, President, Mallard Exploration, Inc.,  
17 Midland, Texas.

18 Mr. Dave Masselli is Assistant Legislative Director,  
19 Friends of the Earth, Washington, D.C. Mr. Masselli, nice  
20 to have you with us. Next is Mr. James R. Moffett, President,  
21 McMoran Exploration Company, Metairie, Louisiana.

22 Next is Mr. John Murrell, Chief Executive Officer  
23 and Chairman of the Executive Committee of the Golyer and  
24 McNaughton Company, Dallas, Texas. Next is Mr. Frank Pitts,  
25 President, Pitts Oil Company, Dallas, Texas.

1 Next is Ms. Rosemary S. Pooler, Chairwoman and  
2 Executive Director, New York State Consumer Protection Board,  
3 Albany. Next is Mr. Don Rice, Jr., President, Rand Corporation.  
4 Next is Mr. Corbin J. Robertson, Chief Executive Officer,  
5 Quintana Petroleum Corporation, Houston, Texas.

6 Next is Mr. James C. Rosapepe, President, Rosapepe,  
7 Fuchs & Associates, Washington, D.C. Next is Mr. Henry A.  
8 Rosenberg, Jr., Chairman of the Board and Chief Executive  
9 Officer, Crown Central Petroleum Corporation, Baltimore,  
10 Maryland.

11 Next is Mr. Ned C. Russo, President, Stabil-Drill  
12 Specialties, Inc., Morgan City, Louisiana. Next is Mr.  
13 Theodore Snyder, Jr., President, Sierra Club. Next is Mr.  
14 Martin Ward, President, United Association of Journeymen and  
15 Apprentices of the Plumbing and Pipefitting Industry in the  
16 United States and Canada. Nice to have you with us.

17 Next is Mr. Lee C. White, President, Consumer  
18 Energy Council of America. Lee, nice to see you. Next is  
19 Mr. Alton W. Whitehouse, Jr., Chairman of the Board and Chief  
20 Executive Officer of the Standard Oil Company of Cleveland,  
21 Ohio. Next is Mr. Joseph H. Williams, Chairman of the Board,  
22 The Williams Companies, Tulsa, Oklahoma.

23 CHAIRMAN CHANDLER: Mr. Secretary?

24 ---

REMARKS OF THE HONORABLE JAMES R. SCHLESINGER,  
SECRETARY OF ENERGY

SECRETARY SCHLESINGER: Good morning to all of you.  
Welcome to the new members, welcome again to the old members.  
As you all recognize, we have been engaged in restructuring  
the National Petroleum Council in accordance with the transition  
from the Department of the Interior to the Department of Energy.

I want to thank all of the members of the Council  
and particularly the Council's leadership, for the cooperation  
-- enthusiastic cooperation that we have received during this  
period of transition.

In that connection, if I may, I would like a few  
moments of indulgence. This, as you know, is the capstone  
of a career of NPC of Collis Chandler, sometime around noon  
today, the fairy godmother will waive her wand and he will  
cease to have the burdens of this office, which brings smiles  
at least to his face. Collis has done yeoman service, as  
all of you know. He has served as the head of the National  
Petroleum Council and in recent years, prior to that, the  
Head of the Natural Gas Supply Community. He has served in  
that role of bridging questions of industry, policy and  
government policy. That has not always been a happy role.  
As we know, the bridge is something that tends to be walked  
on, sometimes trampled on.

Collis has served in a broader context in the last

1 2 years in attempting to keep the dialogue on natural gas  
2 pricing going and recognizing that given the price situation  
3 with which we dealt that the nation required some natural  
4 gas legislation, I am not sure that all members of the Council  
5 agreed with the necessity of that legislation given the out-  
6 come. Indeed, I am not sure that Collis agrees with the  
7 necessity of legislation given the temporary outcome.

8 I saw Collis some weeks ago just after an initial  
9 ruling by the Federal Energy Regulatory Commission. I must  
10 confess for the first time, Collis appeared to be deflated.  
11 Be that as it may, would you come up here, Collis, for one  
12 moment?

13 I would like to read the following citation: "The  
14 Secretary of Energy's Distinguished Service Medal is awarded  
15 to Collis P. Chandler, Jr. for his invaluable service as  
16 Chairman of the National Petroleum Council from December 1976  
17 to the present, during a period in which the responsibilities  
18 for the Council was transferred from the Department of the  
19 Interior to the new Department of Energy.

20 "Mr. Chandler's outstanding talents and his personal  
21 knowledge of the petroleum industry contributed in great  
22 measure in making the Council an important advisory body to  
23 the new Department of Energy and to the Secretary.

24 "Mr. Chandler has demonstrated a high sense of  
25 public responsibility in dedicating a large measure of his

1 time and talents to the Council. His ability to transmit that  
2 sense of responsibility and to motivate the Council in the  
3 nation's interests have been vital to the creation of a  
4 successful relationship between the public and private sectors  
5 in our free democratic society.

6 "Mr. Chandler's dedicated service to the nation and  
7 to the Department of Energy warrants the highest personal  
8 recognition in commendation of the Department of Energy can  
9 bestow.

10 "It is therefore most fitting that he be awarded the  
11 Secretary of Energy's Distinguished Service Medal."

12 (Applause)

13 CHAIRMAN CHANDLER: I am deeply honored. This comes  
14 to me as a complete surprise. Thank you, Mr. Secretary.

15 SECRETARY SCHLESINGER: Here is your citation, Collis,  
16 before you escape. We have here also, Collis, a smaller  
17 replica that you can wear, if you dare to do so on other  
18 occasions less formal than this occasion.

19 CHAIRMAN CHANDLER: Thank you again.

20 SECRETARY SCHLESINGER: I think that there is some-  
21 thing else I might mention. That is that my distinguished  
22 associate of many years, Mr. Kenneth BeLieu, Executive  
23 Director of the National Petroleum Council will soon retire  
24 from that responsibility in order to go back, amongst other  
25 things, to work in the national security area. So I thought

1 that we should take this occasion to honor Ken for his service  
2 which has been long and faithful to the United States of  
3 America, over many years in the defense establishment,  
4 more recently in the National Petroleum Council.

5 I do not want to go over Ken's distinguished record  
6 of service in the military and subsequently as a civilian  
7 in the defense establishment. I will just recount one story  
8 that may illuminate the kind of experience that he has  
9 brought to this Council since departing from defense activities.

10 As many of you know, Ken lost his leg in the Vietnam  
11 War and some years ago, when he was Assistant Secretary of  
12 the Navy, he broke his other leg which was more than incon-  
13 venient, given the circumstances and he was taken to the best  
14 naval hospital, given the degree of difficulty that implied.

15 He lay in bed for some days and finally decided that  
16 somehow or other, he was going to get out of those conditions  
17 and he crawled, without his one leg that had been taken off  
18 and the other one in the cast, somehow or other, into the next  
19 room. At this point, the door opened and an orderly came in,  
20 looked around, found the room empty and shouted, "Mr. BeLieu  
21 is gone. He is gone." and ran out into the hall.

22 A few moments later, he reappeared in the room,  
23 looked around and Ken called from the next room, he says,  
24 "Oh, there you are, Mr. BeLieu. I am delighted; I am relieved  
25 to see you." Ken said, "What seems to be the problem?" He



1 said, "Don't you know, Mr. BeLieu, this is the room in which  
2 Mr. Forrestal was when he decided" --

3 (Laughter)

4 SECRETARY SCHLESINGER: Ken said quietly, "Would  
5 you change my room?" In the service of the National Petroleum  
6 Council, he has not revealed whether or not he wanted to revisit  
7 that 10th floor of the Bethesda Naval Hospital on occasion to  
8 take advantage of the facilities that they have located there.  
9 We meet today in the Forrestal Building and I will come back  
10 to that subject in just one moment.

11 I would like to take this occasion to read a ci-  
12 tation. Ken, would you come forward? "The Secretary of  
13 Energy's Distinguished Service Medal is awarded to Kenneth  
14 E. BeLieu in recognition of his service as Executive Director  
15 of the National Petroleum Council from January 1975 to the  
16 present.

17 "His executive abilities in directing the Council  
18 led to the successful transition during a period of change  
19 for the Council. Your expert counsel and thoughtful insight  
20 that he provided to the Secretary of Energy and to the Depart-  
21 ment have also contributed greatly to the development of  
22 national energy policy.

23 "Mr. BeLieu's sound judgment and unique professional  
24 experience gained through 32 years of distinguished service  
25 in senior positions in the Executive and Legislative Branches

1 of Government enabled him to direct the activities of the  
2 Council in contributing to the newly established Department  
3 of Energy and to the building of essential bridges between  
4 the Council and the new Department.

5 "Mr. BeLieu's dedication, judgment and intelligence  
6 has gained our utmost respect and admiration. His efforts and  
7 dedication on behalf of the Department of Energy deserve the  
8 highest personal recognition and commendation.

9 "It is, therefore, most fitting that he be awarded  
10 the Secretary of Energy's Distinguished Service Medal."

11 (Applause)

12 SECRETARY SCHLESINGER: This is not your first  
13 medal, Ken. It is not the last but it is the latest.

14 (Applause)

15 MR. BELIEU: Jim is full of surprises. You can see  
16 why I like the guy, not because he gave me the medal but  
17 I made the mistake of telling him that story about Bethesda  
18 one time and he's never forgotten. Thank you, Jim. My cup  
19 runs over today.

20 SECRETARY SCHLESINGER: We don't want to have you  
21 go away empty-handed now. There is the citation. Thank you,  
22 gentlemen for your indulgence. I mentioned a few moments  
23 ago that we are in the Forrestal Building. James Forrestal,  
24 of course, was the first Secretary of Defense. The National  
25 Petroleum Council traces its origins back to the question of

1 national security in World War II with the establishment in  
2 1942 of the Office of the Coordinator, Petroleum Coordinator  
3 for Defense. Just after World War II, that office was al-  
4 tered into a post war guise in the establishment of the  
5 National Petroleum Council.

6 I mention these matters at this time because the  
7 bridge between the industry and the government has always  
8 seemed to be of greatest necessity during periods of national  
9 problems. Just as in World War II, today we face a national  
10 problem that stems from the growth of our dependence upon  
11 foreign sources of supply and the potentiality for the inter-  
12 ruption of those supplies, a dramatic example having occurred  
13 in the course of the last 4 months as a result of a close down  
14 of production in Iran.

15 There is, as you know, some insymbiant (phonetic)  
16 sign of restoration of production. Production indeed has  
17 increased in Iran but we must also recognize that the govern-  
18 ment in Tehran does not have full authority over the country  
19 and that it is divided in its councils. Consequently, I do  
20 not believe that we are out of the woods with regard to Iranian  
21 production. I believe that we will find that is insecure  
22 production, that it is subject to interruptions and therefore  
23 in dealing with the energy supplies in the United States,  
24 we are really going to have to be very prudent over the  
25 course of the months ahead.

Moreover, given the dependency on the Middle East to some extent, we become involved in the political difficulties of the Middle East. As all of you know, we have attempted, over the course of recent years, to keep energy supply considerations separate from the political developments in the area.

I do hope that continues to be an achievable goal. I do not believe that we can count on it. I think that the political developments in the Middle East may have some impacts in the weeks and months ahead on our supplies, and as a consequence, we in the United States will have to be cautious that in terms of future expectations of supplies.

We live in a period unquestionably in which the long term and the short term are beginning to merge. Short term problems have been brought on specifically by events in Iran, but the longer term problems imply difficulties long before we had this particular episode.

We have recognized, all of us I think, that the capacity to increase petroleum production worldwide has been -- will not be in the future what it has been in the past and that we are likely to approach a plateau of the petroleum availability in the years immediately ahead.

I speak, of course, of petroleum from conventional sources and not necessarily from unconventional sources have the oils and tar sands, oil shale and the like, but it has

1 serious implications for the structure of American economic  
2 life. It implies, I believe, the steadily rising trend of  
3 energy prices which will impact on the Consumer Price Index.  
4 It has the potentiality for causing dissatisfaction, disturbances  
5 amongst the citizens of this country.

6 In addition, unless our supplies of energy are  
7 adequate, the economy will not be performing at full capacity  
8 and as a consequence, we will have problems of unemployment;  
9 putting together rising prices and unemployment is not a full  
10 recipe for total political satisfaction and stability in this  
11 country. So we will have to make adjustments.

12 I must say we will have to make these adjustments  
13 both in the long and short term. As you know, even the small  
14 impacts on supplies to date that have emanated from the  
15 developments in Iran have begun to create the first stirrings  
16 of questioning about the source of that problem is.

17 I think we are going to have to be very careful in  
18 the months immediately ahead and beyond to restrain what will  
19 be a natural tendency towards demagoguing. I say that quite  
20 bluntly.

21 I think that after the effects of certain supply  
22 shortfalls mixed perhaps with the first quarter profit report  
23 and so forth will bring about an overwhelming temptation to  
24 certain people in political life and as a consequence I think  
25 that all we can do to explain what the basis is of a shortfall

1 of supply will be helpful.

2 In the longer run, we are going to have to make  
3 additional adaptations. One of the great advantages it seems  
4 to me of these repeated warnings that we have had, of which  
5 Iran has been the latest, is that it does send through a  
6 signal that the nation will be in difficulty in terms of  
7 its energy supplies unless it begins to take immediate and  
8 effective counter measures.

9 For the government, we have under review certain  
10 options, possible counter measures, indeed probable counter  
11 measures designed, amongst other things, to shift away from  
12 oil and natural gas -- excuse me, to shift away from oil to  
13 natural gas to coal to enhance the production to whatever  
14 extent we can of oil and natural gas on the North Slope in  
15 California, in some of the older producing areas of this  
16 country.

17 We are a part of the larger world, perhaps less  
18 vulnerable to these difficulties than our partners notably  
19 in Western Europe and Japan. The United States remains the  
20 leader of the free world. Their problems consequently are  
21 our own problems. Unless we are prepared to share in dealing  
22 with these larger problems of energy supply, the structure of  
23 the free world that we have now, since 1945, will be under  
24 increasing pressure. We will be under increasing pressure, I  
25 believe, from two sources.

1 First, I cannot suggest to you for a moment that  
2 the political trends and political situation that exists in  
3 the Persian Gulf have been moving favorable or are indeed  
4 favorable today. I think that we must recognize that there  
5 has been an erosion, deterioration of the American position  
6 and a deterioration of the political relationships of the  
7 United States with the countries of that region.

8 It has been stimulated, as it were, by the development  
9 in Iran. Down through the Persian Gulf each day comes some  
10 20 million barrels of oil or did, at least until the close-  
11 down in Iran, something on the order of 40 percent of the  
12 free world's supplies. Without those supplies, the political  
13 fabric, as well as the economic fabric of the Western World  
14 will immediately be affected.

15 If those supplies are controlled by forces hostile  
16 to democracy to the United States, the implications of that  
17 are an immediate alteration in the power -- (Inaudible) --  
18 around the world and the consequence will be a disruption of  
19 all of those political relationships that we have now since  
20 World War II. That is on the supply side.

21 On the demand side, on the consuming side, we  
22 also recognize that we are under pressure, pressures that come  
23 from the shortfall of supply; to the extent that these short-  
24 falls or the rising prices cause economic disruptions in the  
25 industrial world, they add to our political difficulties.

1 Political difficulties, I believe, in a period of  
2 time in which a democracy is not worldwide and in the condition  
3 of robust health exists. These stem from our energy problems.  
4 I think that we all recognize and we, in the United States,  
5 have never had, in the past, to relate closely national  
6 security and foreign policy considerations on the one hand,  
7 to energy supply considerations.

8 In the past, the United States has been able to live  
9 on its own resources and we have gradually drifted into a  
10 position in which we are dependent. I underline these general  
11 considerations because I think that it enhances the importance  
12 of the relationship between industry, government and the  
13 advisory role of the National Petroleum Council.

14 All of us recognize that even though these diffi-  
15 culties are less acute than they are in times of war, none-  
16 theless, they are very serious and have the potential for  
17 growing increasingly serious. Therefore, there is a necessity  
18 and an enhanced necessity for close cooperation between industry  
19 and the government.

20 As all of you recognize, the government does not  
21 provide energy saving in unique circumstances such as the  
22 provision of nuclear fuels from our enrichment complex. Gen-  
23 erally speaking, the way the government affects energy supply  
24 and use is by impacting the private sector. There must be,  
25 therefore, close cooperation and communication between the



1 two, particularly now in a period of national difficulty and  
2 potential shortfall of supplies.

3 We have done some calculations of late. (Chart) With  
4 regard to the prospects of supply, and if you can see out  
5 there, I am not sure whether you can or not, we have a range  
6 of working stocks between the minimal level and a more com-  
7 fortable level and if we begin to penetrate that band, we  
8 will have difficulties in this country with regard to our  
9 supplies of energy.

10 As you know, we have oscillation during the course  
11 of the year in regard to our inventory worldwide. The base  
12 case that we have employed comes from the presupposed with  
13 Iran had not occurred, as all of you know, the -- (Inaudible)  
14 -- of Iran from production has taken about 5 million barrels  
15 a day out of the world petroleum supplies until recent days.  
16 Production is now up to 1.7 or 1.8 million barrels a day.  
17 Offsetting production in Saudi Arabia and other OPEC members  
18 has reduced the net impact to 2 million barrels a day.

19 We look out and we must prudently plan on a variety  
20 of possibilities and it is the responsibility of the govern-  
21 ment to have in mind, at the time it plans some of the less  
22 desirable cases as well as the more desirable cases. We will  
23 be happy, of course, if energy supply turns out to be greater  
24 than we anticipate in our planning, but we must plan for all  
25 eventualities.

1 We have some three cases that we have developed,  
2 one of which basically implies that the Iranian production  
3 will come back onstream and if that occurs, we will still be  
4 in a tight market throughout the winter of 1979-1980.

5 Inventories worldwide will be at a reduced level.  
6 A further possibility is that Iranian production will come back  
7 onstream but at a reduced level and at a later date and pose  
8 a consequence unless we begin to adjust our patterns of demand  
9 worldwide and we will go through what we had presumed to be  
10 the minimum operating stocks unless we adjust demands.

11 The third case, which is a bleak case, implies that  
12 Iran, either because of the political oscillations within the  
13 country or because of a desentegration, a failure of the  
14 country to recover from the chaos, which it is suffering today,  
15 will not come back onstream and in addition, for a variety of  
16 reasons, other OPEC members reduce production from the levels  
17 they are currently maintaining, which are above the ceiling  
18 levels in the case of some countries.

19 Under those circumstances, unless we have an adjust-  
20 ment of demand, we will go rapidly through those minimum  
21 operating stocks and as a consequence, be in very severe  
22 difficulty next winter.

23 Our planning must be premised on the possibilities,  
24 on all of these possibilities, and we must be prepared to make  
25 sacrifices early on in order to protect our position for next

1 winter. We must keep our factories going; we must have  
2 adequate oil for heating during next winter's heating season.  
3 We cannot continue, for long, to drawdown our inventories at  
4 the pace that we have in these recent months.

5 Some drawdown of inventories is prudent to avoid  
6 the immediate impact on the economy but going beyond that,  
7 would be borrowing against the future and would be unwise  
8 policy.

9 As you know, we have under consideration an Iranian  
10 response plan that can save up to -- ranging upwards to a  
11 million barrels a day savings and not altogether by coinci-  
12 dence, the International Energy Agency met with ours last  
13 week, calling all of the members of the agency to reduce their  
14 demand by approximately 5 percent.

15 The measures that we have under consideration are  
16 ones that are fairly well known to you. They require environ-  
17 ment waivers; they might require fairly rapid adjustment to  
18 make use of the temporary surplus of deliverability in gas.  
19 It will require the greater use of coal and that in itself  
20 may require environmental waivers in the area of refinery  
21 production. It may mean a forestalling of the phasedown of  
22 lead in leaded gasolines and other voluntary measures; to the  
23 extent that the American public can be induced to understand  
24 the full magnitude of this problem, I believe we will have an  
25 effective response.

1 We have called upon the states to administer the  
2 55 mile speed limit. We have called on an elimination of  
3 unnecessary driving. We may have difficulties as early as  
4 this summer with regard to spot shortages of gasoline.

5 I layout this problem ,none of which is particularly  
6 a revelation to any of you, simply because it underscores  
7 that we are gradually, steadily moving into a period of  
8 enhanced energy difficulties that will require cooperation  
9 between industry and government and will require intelligent  
10 policy on the part of the government.

11 During that period, we need to have as much mutual  
12 understanding as we possible can obtain. We need to have as  
13 much comprehension of the difficulties of the nation on  
14 the part of the public to avoid what I would regard as useless  
15 political caterwauling and to have as much cooperation in  
16 terms of demand constraint as we can possibly obtain.

17 Collis, I think that those are enough for intro-  
18 ductory remarks. I don't know whether at this juncture you  
19 would like to have responses, questions or whether you want  
20 to go on to the rest of the agenda.

21 CHAIRMAN CHANDLER: Would you care to respond to  
22 questions? The floor is open to questions for the Secretary.

23 (No response.)

24 CHAIRMAN CHANDLER: Your solemn words seem to have  
25 silenced our Council.

1 VOICE: I would like to ask a question. Murrell  
2 from Dallas. We have seen quite a bit in the paper about the  
3 Mexican situation. I would like to know what the present  
4 thinking is today in the Energy Department about supple-  
5 menting our supplies quickly from there.

6 SECRETARY SCHLESINGER: We are happy to have sup-  
7 plemental supplies from Mexico. We have been happy, indeed  
8 eager to do so all along, supplement supplies either from  
9 Canada or Mexico, the next priority, the use of domestic  
10 supplies.

11 We have, and as many of you recognize, in recent  
12 months, moved in that direction of emphasizing first, domestic  
13 production, secondly, pipeline gas from our neighbors, Canada  
14 and Mexico. We have attempted to avoid major commitments to  
15 LNG which is much higher cost and which the cost from a  
16 relative stance goes to transportation.

17 There are two aspects of your question that I should  
18 touch upon. First, with regard to quick supplementation of  
19 supplies to the extent that is necessary, we would be willing  
20 to have that but I must underscore that at the moment, we have  
21 some surplus in the producing areas of this country, that in  
22 order to provide the appropriate incentives to induce us to  
23 continue to drill, we should remove the overhand from the  
24 market. That will be our first requirement.

25 We are not anxious to take gas from outside the

1 country in such a way that we weaken the stimulus to the  
2 producing sector to increase drilling activities.

3 The second point, the one that has caused difficulty  
4 all along is that any gas that moves into this country must  
5 do so at reasonably competitive prices. As you know, the  
6 contract that was originally signed by Tennaco and five other  
7 companies was signed on the basis of the BTU equivalent of  
8 distillate in New York Harbor, a price which would now be  
9 something on the order of \$3.50 per mcf.

10 We have indicated early on to Mexican officials that  
11 the United States would not be prepared to accept that price  
12 and that continues to be our view, that we could not accept  
13 that price for a number of reasons.

14 First, that it would upset our Canadian border price  
15 which at the time the contract was drawn was \$2.16 and since  
16 we are drawing about a trillion cubic feet of gas a year from  
17 Canada and the Canadians have indicated that for political  
18 reasons, they would have to raise the price of gas on the  
19 Northern border to a higher price -- to the higher price  
20 charged on the Southern border, the consequences of that  
21 would have been an immediate increase of our balance of  
22 trade deficit at the time of the contract about \$400 million  
23 a year.

24 Now, with these higher gas prices, with these  
25 higher prices of oil, that would have been reflected in that

1 contract price of BTU equivalent of distillate in New York  
2 Harbor, it would have been about \$800 million to a billion  
3 dollars a year add on to our balance of payments along the  
4 Canadian border.

5 Moreover, we did not believe that it was advantageous  
6 to Mexico, more than to the United States, to establish price  
7 that would preclude the effective development of a market for  
8 Mexican gas in the United States.

9 To the extent that Mexican gas is to make a market  
10 in the United States, it will do so by and large by replacing  
11 resid. In order to do so, given the pattern of response by  
12 industrial users, that means it must be competitively priced,  
13 the price of the gas at 20 percent above the landed cost of  
14 crude was the original contract price, would have meant that  
15 in the long run, the market would be denied to Mexico unless  
16 the contract terms were changed. That continues to be the  
17 position of the government. We continue to welcome the possi-  
18 bility of Mexican gas but not under those circumstances. It  
19 would have the effect of denying us that gas through contract  
20 terms or that would upset the price structure in the United  
21 States and if on the basis of a take or pay contract, might  
22 just serve to suppress incentives for domestic producers.

23 A long response, I do not know whether I covered it  
24 all.

25 MR. MURRELL: No, sir, Mr. Schlesinger, you didn't

1 because as far as I am concerned, we have a completely dif-  
2 ferent problem today because of Iran than we had when these  
3 decisions were made.

4 SECRETARY SCHLESINGER: We have a different problem  
5 today because of Iran, particularly with regard to oil supplies.  
6 We do not have a completely different problem with regard to  
7 natural gas. Indeed our problem with regard to natural gas  
8 has been to encourage those who have dual capable facilities  
9 to shift back from the use of oil increasingly that they  
10 went to after the natural gas shortage of '76-'77 to the use  
11 of natural gas. That has moved somewhat. I believe the  
12 decisions of the FERC on March 1 regarding sales by intra-  
13 state pipelines to the interstate market will help to move  
14 along that process.

15 We have, of course, the opportunity to import  
16 additional gas from Mexico or from Canada. In recent weeks,  
17 as you know, the National Energy Board of Canada has indicated  
18 that there would be additional gas available to the United  
19 States. To this point, American concerns have not been taking  
20 the full volume of gas that they have been authorized to import  
21 from Canada.

22 I think it reflects what has been something of a  
23 relative surplus in terms of gas supply. All of this suggests  
24 once again that we are under no immediate pressure with regard  
25 to gas. We welcome that gas from Mexico; we welcome that



1 pipeline to be completed to the Texas border as quickly as  
2 possible but it must be on terms that permit that gas to find  
3 a substantial market in the United States.

4 The terms of the original contract, once again,  
5 would have led the price of that Mexican gas to keep skipping  
6 up just beyond the point that would serve as a substantial  
7 market in the United States.

8 I do not regard that as in the interest of Mexico  
9 anymore than it is in the interest of the United States. As  
10 you know, the Mexicans at the moment are firing on the  
11 order of 500 to 600 million cubic feet of gas each day.

12 As their production of oil builds up, there will be  
13 an increasing volume that I believe will be surplus to their  
14 domestic requirements. We will welcome those volumes but  
15 once again, my understanding of the reaction of industrial  
16 users has been that the gas must be priced competitively.

17 Indeed in the discussions of the Natural Gas Bill  
18 and that part of the bill dealing with incremental pricing,  
19 not universally popular, the gas industry made very clear that  
20 if the gas incrementally priced went up to the price of dis-  
21 tillate that it would lose their markets and therefore, pressed  
22 very hard for the price of gas to be no higher than the price  
23 of resid. I thought that the argument was valid then pressed  
24 on the conferrees in support of their argument; I continue to  
25 believe that it is valid today. It is as valid with regard to

1 Mexican gas as it is with regard to American gas.

2 MR. MURRELL: Thank you, sir.

3 SECRETARY SCHLESINGER: Thank you. I don't know, is  
4 there someone here representing Tenneco? Mr. Ketelsen, you  
5 may wish to make some comments.

6 CHAIRMAN CHANDLER: If not, the Chair recongizes  
7 Ken Montague.

8 VOICE: We have no comments on that.

9 MR. MONTAGUE: Would you care to comment on the  
10 government's intentions to stimulate domestic crude oil  
11 production through price control relief?

12 SECRETARY SCHLESINGER: I am not in a position to  
13 give a final answer to that. I can give you some general  
14 trends and some indications of philosophy. First, once again,  
15 we believe that we should be at world price levels. We have  
16 had considerable debate over the proper means to get to world  
17 price levels. Indeed we have had debate on whether or not we  
18 should go to world price levels. As you know, that is not  
19 universally agreed upon, but at the present time, we are en-  
20 gaged in subsidizing every barrel of oil that comes into the  
21 country. We should move, in our judgment, to worldprice  
22 levels. As of June 1, the price to adjust price levels,  
23 comes to the President and we have some degree of tension  
24 between two objectives.

25 One is efficient energy supply considerations, long

1 term energy supply considerations, to some extent, the holding  
2 down of the Consumer Price Index, and continuing to wage the  
3 flight on inflation which is the public's number one issue at  
4 the present time.

5 So we have that tension. I think what that implies  
6 is great difficulty, for example, in decontrolling prices  
7 rapidly and suddenly after June 1. It implies something on  
8 the order of vamping up prices, either heading for the end of  
9 1980, as in accordance with commitment at the Bonn Summit or  
10 possibly the fall of 1981 when EPCA expires and the authority  
11 to maintain controls disappears, though with regard to the  
12 general issue, I cannot give you a clear signal with regard  
13 to certain sub elements of the problem.

14 First, we have had underway, ever since the Congress  
15 closed the rulemaking on marginal wells and which we layout  
16 a number of possibilities, all of them dealing with marginal  
17 wells, to some extent dealing with marginal wells as a tax  
18 lower tier.

19 It has been our intention to provide major relief in  
20 this area in such a way that it impacts higher recovery rates,  
21 provides incentives for additional investment in those older  
22 fields and particular investment in enhanced oil recovery.  
23 So that is one part of the problem, and soon making the adjust-  
24 ments in policy that will encourage investment in the main-  
25 tenance of production in those older fields to the extent that

1 production can be maintained.

2 A second element of policy is the other rulemaking  
3 that we have on the street going to world prices for new oil.  
4 We are not sure at the moment what the prices mean but it  
5 is quite a range, but going to world prices for new oil to  
6 encourage additional activity, not in older fields but in  
7 the search for new sources of supply.

8 In addition, we should like to see greater use made  
9 of various sources of supply that have specialized the Alaskan  
10 oil slope. We have been hung up, for a variety of reasons  
11 on the North Slope, most of them self-inflicted wounds rising  
12 from government policies, indeed from conflicting government  
13 policies, I need not lay those out at the moment, that we  
14 have precluded an effective transportation system from the  
15 West Coast to the interior of the country through a regulatory  
16 maze that has prevented a go ahead for the pipelines.

17 At the same time, we probably put the initial pipeline  
18 in the wrong place. I say that in retrospect. The situation  
19 is different from the time the Department was authorized but  
20 having put the pipeline in the place that we were bound to  
21 have a surplus, Congress promptly voted to preclude the export  
22 of oil from the North Slope.

23 That is repressing prices, reducing the wellhead  
24 return on the North Slope. The consequence has been reduced  
25 desire on the part of the producers on the North Slope to have

1 additional activities and finally the environmental regulations  
2 are not well designed to encourage the use of relatively high  
3 sulfur Alaskan crudes on the West Coast.

4 So we have created, to a large extent, the problems  
5 for the North Slope producers through government policy. We  
6 would like -- and this is not easy, given the position in  
7 which we find ourselves -- to alleviate those problems to  
8 encourage greater production on the North Slope.

9 Another area of the country in which greater pro-  
10 duction is possible is in California. Once again, California  
11 is impacted by the Alaskan North Slope oil. We have made ad-  
12 justments in the entitlements program to encourage the  
13 maintenance of production in California but that is an area  
14 in which greater production could occur if we could ever  
15 straighten out the entitlements system, straighten out the  
16 regulatory system. I think we will be moving in that direction.

17 I do not know if I have fully covered your question.

18 If not --

19 MR. PITTS: May I ask you a question, Mr. Secretary?

20 I am Frank Pitts from Dallas. If I understand the law -- I  
21 may not, the Department of Energy can make these moves you  
22 are talking about, of increasing prices for stripper production  
23 essentially and also lift the price of new new oil that you  
24 were talking about or allowing it to reach the world price.

25 Is it the Department's attitude to do what it can

1 do if it were possible to do these things or to lean towards  
2 Congress for new laws and new directions?

3 SECRETARY SCHLESINGER: I think that opening up  
4 the legislative calendar given some of the strains that have  
5 emerged from one, I would not lean in that direction. I  
6 certainly think that we, in the administration, should be  
7 making these adjustments which are belated.

8 As you know, it was the summer of 1977 that we  
9 committed to Jim Wright and others, that in the context of  
10 the conclusion of the National Energy Act, that we would be  
11 providing relief to marginal wells. That is too long ago,  
12 it took a year and a quarter from that point before the  
13 National Energy Act was passed.

14 Shortly after the National Energy Act was passed,  
15 we started the rulemaking for marginal wells. We have the  
16 authority, if we follow administrative procedures, to move  
17 price up; until June 1, we are limited by the composite but  
18 that should not be a serious problem.

19 Let me make two observations with regard to the  
20 composite. First, part of that composite has not been avail-  
21 able. The reason is that when we set up Energy Action No.  
22 10, dealing with production from the North Slope, various  
23 members of Congress, at that time, stated that we were  
24 trying to end run, as it were, through North Slope and low  
25 wellhead prices on the North Slope that we were trying to

1 create a situation in which we could have something akin to  
2 de facto deregulation.

3 At that time, Mr. O'Leary, who was FEA, entered into  
4 commitments that the Alaskan North Slope components of  
5 the cushion below the composite would not be utilized for  
6 the purposes of making such an end run. We still have con-  
7 siderable room under the composite, irrespective of that con-  
8 sideration. I think that it is not fully understood, however,  
9 that we are carefully bound by existing legislation, that we  
10 are bound by the Administrative Procedures Act that we must  
11 operate in accordance with that Act. If we fail to do so,  
12 we will be sued successfully, I believe, in the courts.

13 The Administrative Procedures Act implies and re-  
14 quires that everything we do be announced in the Federal  
15 Register, that it lie open in the Federal Register whatever  
16 it is, that we get public comments and we have public hearings,  
17 that all of those public comments be examined prior to a final  
18 rulemaking.

19 As you know, we have been working on those problems  
20 since November. We will have that final rulemaking in the  
21 marginal well area shortly. I do not know if it is 5 or 10  
22 days from now, but we must observe the requirements of the  
23 Administrative Procedures Act. Moreover, we must do so in the  
24 area of lower tier oil under the constraints of the EPCA which  
25 provides greater latitude with regard to upper tier oil

1 be very limited latitude;with regard to lower tier oil under  
2 the EPCA,the requirement was very clear, that the Department  
3 was not permitted to raise lower tier oil prices unless it  
4 could make a finding as a result of public comment, through  
5 public hearings and that such increases in price would enhance  
6 the supply of oil in the United States.

7 Unless that is in the public record, and we can  
8 make our rulemaking only on the basis of the public record,  
9 we are vulnerable in the courts. This may not be an ideal  
10 procedure from the standpoint of rapid decision-making. How-  
11 ever, it is the only procedure available to the Department.  
12 It provides ample opportunity for public comment and it provides  
13 ample opportunity for participatory democracy,in the judgment  
14 of some, it may provide more than ample opportunity for  
15 participatory democracy, but that is not a question for us to  
16 decide. We are here to execute the laws and we must do so  
17 under the requirements.

18 Within a matter of weeks, however, we should be in  
19 a position to deal with the marginal well problem, as it  
20 bears upon all of these older producing fields. Sir?

21 MR. ROSAPEPE: Jim Rosapepe from Washington, D.C.  
22 Mr. Secretary, in the context of Mexican oil, you indicated the  
23 major reason the oil had not been struck today is surprise  
24 Mexican gas.

25 SECRETARY SCHLESINGER: We have taken 80 percent of



1 Mexican oil that is exported.

2 MR. ROSAPEPE: Right.

3 SECRETARY SCHLESINGER: We'd be happy to take any-  
4 more.

5 MR. ROSAPEPE: In that case, Mexican gas price was  
6 essentially the issue, the price was too high. In the context  
7 of opening domestic oil prices up to the world level, you have  
8 indicated over time that is the policy you want to move forward.  
9 It is restricted by political and statutory restraints.

10 In recent weeks, we have seen what the world price  
11 can do. We have seen it all over the map. We have seen it  
12 considerably higher than it has been in the past. Look at  
13 the Mexican situation, looking at what is happening to the  
14 world price in recent weeks, is there a price at which a  
15 world price of oil where we say, where the United States  
16 Government says that and no more or not?

17 SECRETARY SCHLESINGER: We have, in my judgment, I  
18 am not sure precisely the focus of that inquiry, if it implies  
19 that the United States Government, at some point, says the  
20 price has gone to \$22 a barrel, we will not accept anymore  
21 foreign oil at that price, that is not something that is avail-  
22 able to this government.

23 MR. ROSAPEPE: I mean more in the context of  
24 domestic.

25 SECRETARY SCHLESINGER: On that, I think we have had

1 illusion in the past of the extent to which the United States  
2 can influence prices abroad. We have limited influence on  
3 that. In the past, we thought we could command the waves  
4 on the sea to stand still and they have not done so.

5 With regard to domestic prices, and I think this is  
6 the area that has been one of continued concern, I think  
7 one can argue that if the price goes to \$20 and \$25 a barrel  
8 in constant dollars, that the supply price then provides  
9 excessive unnecessary incentives for the producers.

10 To the extent that is the case, my judgment is that  
11 those additional returns should be taxed away. I think we  
12 should move toward market prices and not have what we presently  
13 have, a differential between domestic production and foreign  
14 production which results in subsidization and results in an  
15 unnecessary degree of dependence on foreign sources supply  
16 and at the same time, a bureaucratic system which it is my  
17 pleasure and privilege to administer and which is most un-  
18 attractive to the extent that we can move the world prices,  
19 we could get rid of that entire bureaucracy.

20 There are problems of income distribution and as  
21 you know, in the original national energy plan, the suggestion  
22 was that the receipts from the crude oil be rebated to the  
23 public, in essence. That was a judgment as to what was most  
24 salable politically and may have been most salable politically  
25 but the entire thing was not salable politically to the

1 extent that we have an energy problem that bears down particu-  
2 larly heavily on the poor, notably the poor in the northern  
3 states, then we have to deal with that problem of income  
4 equity through other legislation on the Hill.

5 The effect of attempting to deal with this problem  
6 through control of prices tends to worsen our energy supply  
7 position and that does not seem to be well advised.

8 (Applause.)

9 CHAIRMAN CHANDLER: Thank you, Mr. Secretary.

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1 CHAIRMAN CHANDLER: We are now ready for the  
2 reports of the study committees. We will hear first from  
3 Mr. Jack Harbin, who heads the Manpower and Materials Study.  
4 Jack?

5 PRESENTATION BY JOHN P. HARBIN, CHAIRMAN,  
6 MATERIALS AND MANPOWER REQUIREMENTS COMMITTEE

7 MR. HARBIN: The Secretary of Energy, in his letter  
8 of June 20, 1978 to Collis Chandler, requested that the  
9 Council undertake a comprehensive study of the materials and  
10 manpower requirements for U. S. oil and has exploration and  
11 development sectors of the industry.

12 The Council has issued reports on this subject in  
13 the past. The most recent study was completed in 1974 and  
14 dealt with the outlook through 1976.

15 Since the last study, the domestic oil and has  
16 exploration and production sector has experienced increased  
17 levels of activity. Further increases are expected because  
18 a goal of the President's energy plan is to increase oil and  
19 gas production from domestic sources.

20 Concern exists that activity levels may be  
21 constrained due to shortages of critical materials, equipment,  
22 or trained personnel and possible adverse effects of Government  
23 regulations.

24 The Secretary of Energy has requested that the new  
25 report reflect the current outlook for the 1979-1981 period,  
address the longer term situation, and give the impact of

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1 governmental laws and regulation.

2 He requested that the report spotlight potential  
3 critical shortages of materials and manpower, as well as  
4 Government constraints; and then present recommendations  
5 for preventing such problems, to try to alleviate such  
6 problems.

7 Pursuant to the Secretary's request, a Committee  
8 on Materials and Manpower Requirements was formed con-  
9 sisting of 30 Council members and R. Dobie Langenkamp,  
10 Deputy Assistant Secretary, U. S. Department of Energy.  
11 The Committee held its first meeting in Dallas, Texas, on  
12 October 5, 1978 to initiate the study.

13 The Committee decided that material ;and equipment  
14 requirements for 1978-1979 will be derived by updating  
15 the analyses contained in the Council's 1974 study on this  
16 subject to cover the period 1979-1981.

17 Manpower requirements will receive a more detailed  
18 examination than in the 1974 study. The impact of Federal  
19 laws and regulations will be reviewed to identify possible  
20 constraints. The analysis will differ from previous Council  
21 efforts in this area in that it will include geological  
22 and geophysical services requirements, a broader survey of  
23 manpower, and a review of laws and regulations affecting the  
24 study.

25 The Committee has established three subcommittees

3 el 1 and seven task groups to report to these subcommittees on  
2 areas of special interest. The Outlook and Materials Sub-  
3 committee, chaired by Ansel Condray of Exxon, is studying  
4 various supply and demand factors and will forecast  
5 industry progress based upon these factors. Attention will  
6 be given to matching the market demand with the industry's  
7 capacity and capability to meet the demands.

8 Under the Outlook and Materials Subcommittee are  
9 five task groups to focus particular attention on key  
10 segments of the industry. These Task Groups and their  
11 chairmen are: First, the Geological and Geophysical  
12 Services Task Group; Grant A. Dove, of Geophysical Service,  
13 Incorporated, Chairman.

14 Secondly, The Well Servicing Task Group, David M.  
15 Carmichael, of WellTech, Incorporated, Chairman; third, the  
16 Drilling Equipment Task Group; Ted C. Rogers, of National  
17 Supply Company, Chairman.

18 The fourth task group is the Tubular Steel Task  
19 Group; Thomas D. Cramer, of United States Steel Corporation,  
20 Chairman; fifth, The Production Equipment Task Group,  
21 William W. Sharon, of Chevron U.S.A., Incorporated, Chairman.

22 The Manpower Subcommittee is chaired by  
23 C. R. Palmer with Rowan Companies, Incorporated. This  
24 committee is studying the availability of manpower in light  
25 of forecasted demands.

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1 The Government Subcommittee is chaired by  
2 Kenneth E. Montague of General Crude Oil Company. The Sub-  
3 committee will identify and explain Federal laws, regu-  
4 lations and policies of the Government that will significantly  
5 impact the availability of manpower and materials to the  
6 exploration and producing industry by imposing economic and  
7 regulatory constraints.

8 The Subcommittee will quantify the impact of these  
9 constraints and make recommendations for constructive  
10 change. The Subcommittee has established two task groups.  
11 The Business Environment Task Group, chaired by John G.  
12 Luttrell of Mobil Corporation, is focusing its attention  
13 on the long term impact of Federal policy and business  
14 philosophy on the availability of materials and manpower.

15 The Regulatory Impact Task Group, chaired by  
16 Dean H. Maddox of Tenneco, Incorporated, is evaluating the  
17 near term impact of Federal regulations on the availability  
18 of materials and manpower.

19 Coordinating the entire study is Bob Winn of  
20 Halliburton, plus the chairmen of the subcommittees. The  
21 coordinating group will consolidate the reports and prepare  
22 a draft report for the overall Committee.

23 The subcommittees are presently hard at work  
24 collecting and analyzing data. It is anticipated that their  
25 reports will be completed by June 1979. Drafting of the

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1 report, review, revisions, and necessary approvals by the  
2 Committee and the Council should be completed by September  
3 and the report should be published in October 1979.

4 In closing, I want to express my appreciation for  
5 the support and effort given by the many Council members,  
6 Government employees, and other persons participating in  
7 this massive study.

8 We feel the final report will be of great  
9 assistance to Government, industry, and the general public;  
10 and we look forward to its presentation this coming fall.  
11 Thank you, Mr. Chairman.

12 CHAIRMAN CHANDLER: Thank you, Jack. Are there  
13 any questions or comments by the members of the Council.  
14 Jack is Chairman and Chief Executive Officer of the  
15 Halliburton Company.

16 Jerry McAfee, who is Chairman of Gulf Oil  
17 Corporation, has been heading up the work of the Committee  
18 on Refinery Flexibility. Jerry?

19 PRESENTATION OF JERRY MC AFEE, CHAIRMAN,  
20 COMMITTEE ON REFINERY FLEXIBILITY.

21 MR. MC AFEE: Mr. Chairman, Ladies and Gentlemen.  
22 By letter dated September 18, 1978, Secretary of Energy  
23 James R. Schlesinger formally requested the National  
24 Petroleum Council to "undertake a comprehensive study of  
25 the historical trends and present status of the domestic  
refining industry's sources of crude oil and its capability



1 to process these crudes into marketable petroleum products."  
2 The letter also requested an analysis of future trends  
3 examining capabilities and economics of refineries and  
4 their flexibility to meet supply dislocations.

5 As you will recall from the May 25, 1978 meeting  
6 of the Council, this study was requested by the Secretary,  
7 and approved by the Agenda Committee and the full Council.  
8 Subsequently, Mr. Chandler appointed a Committee on  
9 Refinery Flexibility. I agreed to chair the Committee, and  
10 Hon. Alvin L. Alm, Assistant Secretary for Policy and  
11 Evaluation, U. S. Department of Energy, was designated as  
12 Government co-chairman.

13 The Committee met on November 2, 1978 and, after  
14 some considerable discussion of how to overcome the  
15 inherent difficulties in meeting the Secretary's request,  
16 appointed a Coordinating Subcommittee and two task groups  
17 to facilitate the Committee's work.

18 Mr. John R. Hall, Chief Executive Officer for  
19 Petroleum and Chemical Operations, Ashland Oil, Incorporated,  
20 is Chairman of the Refinery Capability Task Group.  
21 Mr. Eugene L. Peer, U. S. Department of Energy, is  
22 Government Co-chairman.

23 Mr. S. E. Watterson, Jr., Corporation Manager-  
24 Tanker and Distribution Planning Staff, Standard Oil  
25 Company of California, is chairman of the Oil Supply,

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1 Demand and Logistics Task Group.

2 Mr. Robert S. Long, Policy Analyst, Office of  
3 Oil and Gas Policy, U. S. Department of Energy, is  
4 Government Cochairman. Mr. Warren B. Davis, Chief  
5 Economist, Gulf Oil Corporation, is Chairman of the  
6 Coordinating Subcommittee; Mr. Frank A. Verrastro, Policy  
7 Analyst, Policy and Evaluation, U. S. Department of Energy,  
8 is Government Cochairman.

9 The membership of the Coordinating Subcommittee  
10 includes the chairmen of the two task groups and indi-  
11 viduals from the outside of the industry who provide a  
12 broader point of view for the study.

13 The two task groups and the Coordinating Sub-  
14 committee have all had several meetings since November 2,  
15 and the Committee met again yesterday to review their  
16 progress and provide appropriate guidance.

17 The purpose of this progress report is to bring  
18 you up to date on the status of our work. The study is  
19 being conducted in two segments. The first segment is  
20 concerned with past trends and current capability.

21 This portion of the study will analyze in detail  
22 the current and near-term future capabilities of U. S.  
23 refineries to process crudes of various qualities and to  
24 produce products of various specifications.

25 Past trends in crude oil availability, foreign and

8 el

U. S., are being identified by sulfur content and gravity and current U. S. and worldwide crude and product balances are being prepared.

The second segment is concerned with the time period to 1990 and will deal with projected requirements and availability of various crude types throughout the world and U. S. product requirements.

Analyses will be made of the future trends in refinery capabilities which may be required by these projections. Finally, this segment will analyze current and future refinery yield flexibilities which might be called upon in time of supply dislocations.

Just a brief word about each task group. The first is the Refinery Capability Task Group. This group is developing data on present U. S. refinery capabilities which include the ability of refineries to make unleaded gasolines at given octane ratings and their ability to make low-sulfur fuel oil.

This phase of the Task Group's work should be completed by May 1 and, based on the current status, is anticipated to cover over 18 million barrels per day or over 95 percent of all U. S. and U.S. Caribbean petroleum refining capacity.

I might interpolate here that this response is extremely gratifying and very much appreciated. It insures

9 el 1 that this study will be a meaningful and pertinent one.

2 The next phase of this Task Group's work will  
3 project the refinery capacity and capital requirements  
4 inherent in long-term oil supply/demand balances and will  
5 develop the competitive analysis requested by the  
6 Secretary.

7 Finally, this Task Group will analyze the U. S.  
8 refining industry's flexibility to meet unforeseen circum-  
9 stances that could result from supply disruptions.

10 And now a word about the Oil Supply, Demand and  
11 Logistics Task Grou's work. The first phase of this group  
12 was to collect historical data on the demand for petroleum  
13 products and crude availability by PAD Districts for the  
14 period 1972-1977.

15 They have also collected histroical data on the  
16 worldwide availability of crude oi. The second phase of  
17 this Task Group's work will develop similar data out to  
18 1990. It will be this supply/demand data which the  
19 Refinery Capability Task Group will use to analyze future  
20 refinery requirements.

21 Because of the inherent difficulties in developing  
22 such data and the constantly-changing world situation, this  
23 phase of the Task Group's work is not expected to be com-  
24 pleted until late Spring.

25 In summary, our Committee has found that the data

10  
1 needed to carry out the study were difficult to obtain and  
2 we have found our progress has showed from the schedules  
3 we originally had hoped to keep.

4 On the other hand, we expect that the data obtained  
5 and the analysis of those data will be of high quality and  
6 we are optimistic about our ability to make a competent and  
7 significant response to the Secretary's request and complete  
8 it by some time in the fall of 1979. Thank you.

9 CHAIRMAN CHANDLER: Any questions of Jerry?

10 (No response.)

11 CHAIRMAN CHANDLER: Thank you very much, Jerry.  
12 The progress report on the NPC Committee on Unconventional  
13 Gas Sources, is next. John F. Bookout, President and Chief  
14 Executive Officer of Shell, will present the report. John.

15 PRESENTATION BY JOHN F. BOOKOUT. CHAIRMAN,  
16 COMMITTEE ON UNCONVENTIONAL GAS SOURCES

17 MR. BOOKOUT: Thank you, Mr. Chairman. As  
18 referenced by the previous speakers, last year, the  
19 Secretary of Energy requested the National Petroleum Council  
20 to undertake an analysis of the potential for unconventional  
21 gas sources in the United States.

22 In the four areas as identified were: methane in  
23 connection with coal deposits, the Devonian Shell of the  
24 Eastern United States, methane in solution in fuel pressure  
25 most on the Gulf Coast, and gas in very tight reservoirs

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1 generally associated with the content in rock amounts and  
2 normally not produced at this time because of low-  
3 deliverability problems making them non-commercial.

4 Now, a roster of the Committee formed by the NPC  
5 and approved by the Secretary of Energy is indicated in your  
6 Task Group 1, so I will not take the time to do that. This  
7 Committee, together with the Coordinating Subcommittee and  
8 four task groups, will develop a response to the Secretary's  
9 request by determining the resource base and the outlook for  
10 recovery for each of the four types of unconventional gas  
11 sources referred to.

12 We also decided at that meeting that we would make  
13 extensive use of previous studies on these various sources.  
14 The Coordinating Subcommittee and the four task groups and  
15 the staff have been active since 1978. Also, in this con-  
16 nection, amongst your papers you will find an organization  
17 chart labeled, "Attachment 2."

18 At the first Committee meeting on September 26,  
19 1978, we established a timetable which provided an interim  
20 progress review, mid-January 1979; a beginning by the  
21 subcommittee of a draft final report about April 1, 1979,  
22 and presentation to main Committee for comments. That was  
23 for May 1. The presentation for final report will begin by  
24 June 1st; with a completion date of July 1, 1979.

25 A set of basic economic parameters for the study

12 1 have been agreed upon by the Coordinating Subcommittee and  
2 reviewed by the main Committee. Using this, we plan to  
3 provide for each of the four unconventional sources of  
4 natural gas; first, as to its intentions as to its ultimate  
5 recovery by the year 2000 as functions of gas price and  
6 state of technology; and secondly, estimates of possible  
7 production rates by the year 2000.

8 At best of course, these will only be estimates  
9 subject to considerable uncertainty. If possible, we will  
10 also estimate the range of uncertainty. I might say a word  
11 about the progress of each of these task groups, starting  
12 first with the Coal Seams Task Group.

13 They have decided there is little they can add to  
14 the data on the total resource of gas which may exist in  
15 coal seams. Instead, they plan to concentrate on the amount  
16 which may be recoverable and on the possible economics of  
17 production, and on the problems of commercialization,  
18 capital, operating costs and other data required for the  
19 economic evaluation now being obtained from several dif-  
20 ferent areas.

21 Estimates of probable gas-flow rates are  
22 important; but of course, it may prove difficult to  
23 estimate. A geographical area of the Devonian Shell current  
24 was split into three parts for resource assessment by three  
25 companies.

1           Each company has presented their data and their  
2 assessment to the entire task group for review. Estimates  
3 of gas in place and of recoverable gas have been made.  
4 Economic data on well costs and other, are now being  
5 collected for economic analysis.

6           Sometime in March the task group plans to meet  
7 with Lewin and Associates to discuss and compare assessments  
8 of Devonian Shelf gas potential that that organization had  
9 previously made.

10          The Tight Gas Reservoir Task Group had discussed  
11 their major areas of interest, and assignments have been  
12 made to estimate the gas resources. The data base  
13 developed by Lewin and Associates will be used as a  
14 starting point in resource assessment.

15          Committee geologists do not believe they can  
16 cover all U. S. basins in the allotted time. They do plan  
17 to cover the most important basins where there is the most  
18 data. There will be about 15 in number.

19          Resource assessment is currently the major  
20 activity. Some time is also being spent in choosing a  
21 method to estimate the results expected from fracturing in  
22 each basis of interest.

23          Model well performance, cost, and dry hole ratio  
24 are being estimated for target reservoirs in each major  
25 basin of interest. For these, an economic analysis will



1 be made of the amount of gas estimated to be producible at a  
2 given price.

3 The Geopressure Brines Task Group has secured the  
4 analysis made by Lewin and Associates of the geopressured  
5 gas resource, and they are also obtaining access to the very  
6 extensive geological studies already carried out for the  
7 Department of Energy by groups at the University of Texas  
8 and at Louisiana State University.

9 They plan an independent assessment of these and  
10 other data to define the resource, estimate reservoirs and  
11 well performance, design wells, estimate costs and  
12 economics.

13 Geothermal and hydraulic energy will be con-  
14 sidered in addition to energy from the gas estimated to be  
15 dissolved in the brine.

16 From the economic evaluations, the group plans  
17 to evaluate first the best geological examples they can  
18 find. They would next evaluate less favorable geological  
19 examples, and would estimate how many reservoirs of a given  
20 type might be found.

21 Both offshore and onshore locations will be  
22 considered. From such analyses, the amount of gas which  
23 could be theoretically produced at a given price will be  
24 estimated.

25 In summary, our task groups are progressing

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1 toward the goal of a mid-year Final Report. However, it  
2 appears that some of our task groups may not complete their  
3 work within the allotted time. I am constantly monitoring  
4 this effort with the objective of answering the request  
5 letter of Secretary Schlesinger to the best of our ability in  
6 a reasonable time. Of course, we will try. Thank you.

7 CHAIRMAN CHANDLER: Thank you, John. Are there any  
8 comments or questions?

9 (No response.)

10 We will hear next from Robert Sellers, Chairman  
11 of Cities Services, and Chairman of the U. S. Petroleum  
12 Inventories, and Storage and Transportation Capacities  
13 Committee.

14 PRESENTATION BY ROBERT V. SELLERS, CHAIRMAN,  
15 UNITED STATES PETROLEUM INVENTORIES, AND STORAGE  
AND TRANSPORTATION CAPACITIES

16 MR. SELLERS: Thank you, Mr. Chairman. The studies  
17 that we have undertaken are a continuation of a series of  
18 studies done by this Council over a period of many years.  
19 The last study of the transportation capacities, of which  
20 our study will be an update, was done in 1967.

21 The last study of the inventory and storage  
22 capacity was done in 1974. This is the first time that the  
23 transportation and inventories studies have been done as a  
24 single study.

25 Subsequent to receiving the request from the

1 Secretary, this Committee was set up with me as its  
2 chairman, with Darius Gaskins as Government Cochairman. At  
3 our first meeting in September, we agreed to a study outline  
4 and an organizational structure. This is all included in  
5 material that you have received, so I am not going to read  
6 all of the words, nor go over the organizational structure in  
7 detail.

8 We set up a Coordinating Subcommittee. This has  
9 been the standard method of operation here, with Scott  
10 Van Dyke, President of Transportation for Cities Service  
11 Company, serving as its chairman. Mario Cardullo serves as  
12 the Department of Energy Cochairman.

13 There are five task groups. The five heads of  
14 those task groups serve on the Coordinating Subcommittee.  
15 They are: W. P. Mittar, of Inventory Storage; G. D. Perck,  
16 Individual Pipelines; L. A. Hanna, Gas Pipelines; C. J.  
17 Llewelyn, Waterbourne Transportation; and W. D. Smith, Jr.,  
18 Tank Car and Tank Truck. Two other members of the  
19 Coordinating Subcommittee are Richard Harvis and Frank Reeves.

20 By virtue of doing the Inventory Storage and  
21 Transportation studies together, we have an opportunity which  
22 we believe can be helpful to the Department to include some  
23 descriptive material of the inner action of the transportation  
24 system, and inventories and storage. Dick Harvin and  
25 Frank Reeves are working specifically on this segment of the

1 study.

2 The specific items that will be covered by each  
3 task group are reported in the written material that has  
4 been handed out. There is nothing particularly new and  
5 different in the methodology that has been used in the past.

6 In the case of defining the available inventories,  
7 I think as each of these studies has been done through the  
8 years, we have tended to get a little bit more sophisticated  
9 as to defining what are our available working stocks, and  
10 we have taken another step in that area in outlining this  
11 study.

12 Our target date is completion by September 1st.  
13 The Gas Pipeline Task Group and the Waterbourne Transportation  
14 Task Group have completed gathering their data, and are in  
15 the process of report preparation.

16 The other three task groups are in various stages  
17 of data collection at the moment. We still hope to make  
18 the September 1 date, but we may slide a little bit. Thank  
19 you, Mr. Chairman.

20 CHAIRMAN CHANDLER: Thank you, Bob. Are there any  
21 questions or comments on Bob's report? If not, on behalf of  
22 the entire Council, let me thank each of the four chairmen  
23 and their diligent and hard-working committees. We all look  
24 forward to the completion of the reports, which I hope will  
25 occur at the next meeting -- not too far off.

1 We will now have reports from the two standing  
2 committees. The first is Ken Montague, who will present the  
3 Financial Committee report.

4 PRESENTATION OF KENNETH E. MONTAGUE,  
5 CHAIRMAN, FINANCE COMMITTEE.

6 MR. MONTAGUE: Thank you, Mr. Chairman. Your  
7 Finance Committee met yesterday to review the adminis-  
8 trative financial procedures for the Council. We are pleased  
9 to report that the condition of the Council's finances is  
10 excellent.

11 At our meeting yesterday, the Committee reviewed  
12 Calendar Year 1978 expenditures, and considered a proposed  
13 budget for Calendar Year 1979, which will provide the funds  
14 to complete these four ongoing Department of Energy studies.

15 Based on this review, the Committee concluded that  
16 a budget of \$1 million, 950 thousand is required to cover  
17 the Council's operating costs for 1979, including these  
18 studies.

19 Carryover funds for 1978 will enable us to reduce  
20 the amount raised from the membership to \$1 million,  
21 350 thousand. The Committee also discussed with our outside  
22 auditors the annual financial report, which, incidentally,  
23 gives us a "clear bill of health."

24 Mr. Chairman, the Finance Committee recommends  
25 that the membership approve No. 1 first: An annual budget

18 el

1 for Calendar Year 1979 in the amount of \$1 million, 950  
2 thousand; secondly, the selection of Arthur Young and Company  
3 to continue as the Council's outside auditors for Calendar  
4 Year 1979. Mr. Chairman, I move that the Council adopt  
5 this report from the Finance Committee.

6 CHAIRMAN CHANDLER: Is there a second?

7 MR. \_\_\_\_: Second.

8 CHAIRMAN CHANDLER: All in favor?

9 (Chorus of "ayes")

10 CHAIRMAN CHANDLER: Those opposed?

11 (No response)

12 CHAIRMAN CHANDLER: Motion carries. Thank you,  
13 Ken. In Bob Anderson's absence -- Bob is Chairman of the  
14 Nominating Committee -- Charlie Spahr will give a report of  
15 the Nominating Committee.

16 PRESENTATION OF CHARLES E. SPAHR, ACTING  
17 CHAIRMAN, NOMINATING COMMITTEE

18 MR. SPAHR: Mr. Chairman, in accordance with our  
19 little discussion yesterday, recognizing that there are a  
20 number of members of the Council in this meeting for the  
21 first time, I think a few words of explanation are due  
22 before I make the Committee's report.

23 This first meeting was to serve as the first  
24 meeting of the National Petroleum Council. The Council's  
25 Bylaws specify that prior to each organizational meeting,

19 el 1 the Chairman shall appoint a Nominating Committee, and that  
2 that Committee shall recommend to the Council a chairman,  
3 a vice chairman, and the member for the Agenda and  
4 Appointment Committees to serve until the next organizational  
5 meeting, which presumably will be the first meeting in 1980.

6 The Agenda Committee reviews requests from the  
7 Secretary of Energy for advice and information on specific  
8 subjects, and makes recommendations to the Council pertaining  
9 to action recommended on those specific requests.

10 The Appointment Committee advises the Chairman  
11 regarding the naming of members of individual committees,  
12 the special committees, that will be responsible for  
13 developing studies and reports such as you heard this  
14 morning for submission to the Council for its consideration  
15 from time to time.

16 In addition to Mr. Anderson, who our Chairman  
17 has indicated is the chairman of the Nominating Committee,  
18 the other members are: Jack H. Aranathy, Jake L. Hammond,  
19 Fred L. Hartley, Dean J. Mc Gee, Robert D. Thomas, and myself.

20 I am pleased now to present our report. The  
21 Committee, which met yesterday afternoon, recommends that  
22 Mr. Charles H. Murphy, who has been Vice Chairman of the  
23 Council for the past 2 years, be elected as chairman; that  
24 Mr. H. J. "Bill" Haines, Chairman of Standard Oil Company of  
25 California, be elected vice chairman.

20 el

1           The Committee also recommends the following  
2 individuals serve as members of the Agenda Committee:  
3 Mr. C. Tom Miller, as chairman; Jack M. Allen, Jack A.  
4 Carver, Jr., Edwin L. Cox, C. C. Garven, Jr., Alvin S. Gross  
5 Byron, Fred L. Hartley, R. L. O. Shields, Robert V. Sellers,  
6 Rawleigh Horner, Jr., and Alden W. Whitehouse, Jr., be the  
7 members of that Committee.

8           I should pause to point out that the Bylaws  
9 specify that the Committee membership shall be at least  
10 five, but not more than 11. I have just reeled off 11 names  
11 to you so the Committee may have the maximum number.

12           The Appointment Committee is also required to  
13 have at least five members, but not more than 11, and we  
14 have 11 members to recommend to you this morning.

15           They are: Mr. Harold Lee Burg, as chairman;  
16 Mr. John F. Bookout, Mr. James W. Emerson, Harold D. Hawkman,  
17 Mary Hudson, Thomas L. Kimball, W. F. Martin,  
18 Jeff Montgomery, Robert E. Seymour, J. J. Simmons, Jr.,  
19 and Robert E. Yatzie.

20           Mr. Chairman, this completes the report of the  
21 Nominating Committee; and I will move with your permission  
22 that the Council act positively on the recommendations that  
23 the Committee has made for the chairman, vice chairman and  
24 members of the Agenda Committee and Appointment Committee.

25           CHAIRMAN CHANDLER: Mr. Spahr has moved the



1 adoption of his Committee report. Is there a second?

2 MR. \_\_\_\_\_: Second.

3 CHAIRMAN CHANDLER: Is there any discussion?

4 (No response)

5 CHAIRMAN CHANDLER: All in favor?

6 (Chorus of "ayes")

7 CHAIRMAN CHANDLER: Opposed?

8 (No response)

9 MR. SPAHR: Congratulations, Colleagues; and  
10 congratulations, Charlie -- I think.

11 CHAIRMAN CHANDLER: I first met Charlie Murphy in  
12 July of 1948, and I have probably known him longer than any  
13 person in this room. I was a 21-year-old crude-oil buyer  
14 for one of the companies that is represented out there this  
15 morning.

16 I called on Charlie -- and I will never forget  
17 this -- and Charlie was gracious enough to move away from  
18 his desk and sit down beside me. For a 21-year-old kid,  
19 fresh from Purdue, this impressed me deeply.

20 I request your courtesy. My respect for him has  
21 continued to grow during the past 31 years, and I think the  
22 Council is privileged to have, not only a very able  
23 gentleman but a most gracious one. Charlie, congratulations.  
24 If you care to say a few words, I will step aside.

25 MR. MURPHY: Collis, thank you very much. I

22 el  
1 think the rather gingerly congratulations of the Chairman  
2 of the Nominating Committee conferred upon me indicates the  
3 gravity of this, and perhaps consolations are more  
4 appopriate that congratulations.

5 It is an honor to accept the chairmanship  
6 during the present world situation, and the surveys made  
7 by the administrations serving in peace and war. This  
8 certainly has been led by a long procession of distinguished  
9 chairmen, and I pledge to you that I will do my very best  
10 not to sully the fine record of these fine gentlemen.

11 We have reduced strength in the Council. We do  
12 not have reduced power or talent. Sheer numbers is not as  
13 important as broad representation, which we have. Overlaps  
14 and duplications have been eliminated, and the redundancy  
15 of trade association full-time members has been eliminated.

16 Their talents are great; their services most  
17 useful. If that can be done in another way, a lot of the  
18 redundancy has been eliminated. We have new blood here.  
19 I welcome the new members here, and particularly those from  
20 outside the working ranks of the petroleum industry  
21 itself.

22 You know that Will Rogers said, "I have never met  
23 a man I didn't like." And the corollary to that is that you  
24 can't like a man you haven't met. I think we are going to like  
25 each other.

23 el 1 As the Secretary has told you, there is work to  
2 be done and a somber assessment made clear. We are in one of  
3 the most critical times concerning the energy supply, that  
4 our Nation has ever faced, other than during outright  
5 hostilities.

6 I am an optimist I am not a "doomsday" man. I  
7 think that reason will prevail among mankind. But we have to  
8 acknowledge the historical fact that nations have gone to  
9 war for less reasons than those prevailing in the world  
10 today.

11 So, Ladies and Gentlemen, there is work to be  
12 done, and I look forward to having our "shoulders to the  
13 wheel" together to get it done. Thank you very much.  
14 [Applause.]

15 CHAIRMAN CHANDLER: Thank you very much, Charlie.  
16 Let me very briefly retrace my 28 months as Chairman. The  
17 year of 1977 was a year of waiting for the National  
18 Petroleum Council as the Department of Energy was formed.

19 The Department of Interior had recommended the  
20 transfer of the Council to the new Department, and the  
21 Secretary of Energy had to decide whether or not to use the  
22 Council.

23 As 1978 opened, it was his decision to use the  
24 Council and he requested four studies, which was more than  
25 the Council had undertaken before at one time. That year

24 el 1 of waiting was followed by almost frenzied activity that  
2 carries on now in 1979.

3 The level of activity is, of course, difficult;  
4 but the year of inactivity was even more so -- not only to  
5 the Council officers but to the Staff, as well. But the  
6 Staff survived in tact and, as many of you know from your  
7 own personnel departments, this Staff gets very high marks  
8 indeed.

9 It is a tribute to its own quality and the  
10 quality of leadership from Executive Director, Ken Belieu.  
11 The members of this Council represent the most able minds  
12 of an industry absolutely critical to the wellbeing of  
13 every man, woman and child of this country -- and for that  
14 matter, the Free World.

15 I have been a member of the Council since the  
16 mid-1960's, and have worked at virtually every level of the  
17 many studies that occurred during that period. The ability  
18 and intense effort exhibited by the working committees,  
19 which consist of your men and your staff, is something that  
20 I marvel at. They are a credit to you just as you are a  
21 credit to them.

22 My experience in NPC, as well as my 31 years in  
23 this business as an oil man, leave me even more convinced  
24 that this industry's greatest resource is not its oil and  
25 gas in the ground but rather, in the minds of its people.

25 el

1           The highlight of my career has been to serve you  
2 as your chairman. Tomorrow, the Council will also have a  
3 new executive director. And with the advice of the  
4 Appointment Committee, Charlie Murphy and I have selected  
5 J. Carter Perkins, who was recently retired from Shell Oil  
6 Company, to serve as the new executive director of the  
7 Council. Carter, will you stand and be recognized?

8 [Applause]

9           CHAIRMAN CHANDLER: It is with a great deal of  
10 comfort that I retire today knowing that the Council is in  
11 the able hands of Charlie and Carter.

12           I think one of the finest experiences I have ever  
13 had was to work with Ken Belieu for the past 6 years -- 4 of  
14 them here, first as vice chairman and then as chairman;  
15 and then before that, at the National Gas Supply Company  
16 where we first teamed up.

17           I have taken a thought from John Ruskin, and I  
18 have redrafted it around the man: "Great men have a  
19 curious sense of humility -- humility not in the sense of  
20 meekness but in the sense that their meekness is not in  
21 them, but rather through them. And such men inspire  
22 incredible loyalty." This serves not only them well, but  
23 men well; and I consider Ken Belieu to be such a man.  
24 Ken, the podium is yours. [Applause.]

25           MR. BELIEU: Nobody deserves words like that; but

1       terribly derelict if I did not thank you gentlemen and the  
2       previous members of the Council for the opportunity of  
3       serving you. I especially want to thank John Storington,  
4       who drafted me, and who has been my mentor, guider, "father  
5       confessor" and dear friend. In the first 2 years with  
6       Collis Chandler, it has been an honor and privilege to  
7       serve you.

8               Now, years ago -- I hate to say how long but I  
9       guess it has been 18 or 19 years ago -- I sat at this table  
10      in the old Interior Building, as a guest speaker with the  
11      assistant secretary of the Navy; and there is another  
12      assistant secretary then, John Kelly, who is lately  
13      deceased, who sat there as assistant secretary of Interior.

14             His remarks were that we must start getting on  
15      with this 'shale' business; we need to do it very shortly.  
16      It is now 19 years later and we still have that door to  
17      open.

18             I said something then that I would like to  
19      repeat -- not the things I say will necessarily stand -- but  
20      it seems to me this is a truism and a hard fact of success  
21      as we see our Nation; and it still is: There must be a  
22      partnership between you gentlemen in the Council and those  
23      of us, the assistant secretaries and presidential  
24      appointees who have the "red tape" in Washington.

25             Without your sage advice, compassion -- at times,

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1 a certainly a helping hand, we cannot do out jobs here.  
2 This business of cooperation between Government and industry  
3 is something we must nurture and foster. We cannot succeed  
4 in our way of life -- nor will our Government succeed -- if  
5 we do not do this.

6 I think that was true then, it is true now; but  
7 I did not say enough at that time because the time has  
8 passed now for just the cooperation between Government and  
9 industry. It never was, should have been more and always  
10 should have been more.

11 I am delighted that the new members have come  
12 in: Al Rossboro, who I have had the pleasure of working  
13 with and talking with in gas supply; and Marty Ward, also.  
14 We needed cooperation between business and labor,  
15 Government and environmentalists; the consumers -- all  
16 Americans -- because the hour is short.

17 We have had in our fiber as American citizens  
18 some words that say something to the effect of these words:  
19 "We hold these things to be self-evident," and because of  
20 that, "we mutually pledge to each other our lives, our  
21 fortunes and our sacred honor," and we mutually pledge this  
22 to each other as Americans.

23 Last night I had the opportunity of talking with  
24 Jim Rosepepp and Lee White -- he is an old friend -- and  
25 Marty Ward. I didn't get a chance to speak with

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1 Ruth Hannefeld, but I know her reputation. They all said:  
2 How can we help? We'd like to serve on committees. I think  
3 that is great.

4 We will all have our differences, but no longer  
5 is there time to argue; because that door is going to close  
6 and lock on us. So we must mutually pledge to each other  
7 that we are going to help solve this problem with just the  
8 people in this room that helped the Secretary of Energy and  
9 this nation solve a little bit of this energy problem.

10 We can consider our lives to be well spent if we  
11 do this. And indeed, if we do not cooperate together, we  
12 cannot be "with malice toward none." And I'm afraid we  
13 might end up as these words of an old woman poet said over  
14 1900 years ago: "This is the land of discontent." It was  
15 said after the civil wars in Rome -- "This is the land of  
16 discontent. I see it shining plain; the happy highways  
17 where I once went, and can never come again."

18 I thank you, I thank the Staff. You have a  
19 splendid staff. It has been an honor and privilege to work  
20 with you. [Applause.]

21 CHAIRMAN CHANDLER: Our next Agenda item is a  
22 sad one. It recalls the passing of a dedicated and  
23 beloved member of the Council, Carrol M. Bennett. Ed Cox  
24 has prepared and will present a memorial resolution to  
25 Carrol.



MEMORIAL RESOLUTION TO CARROL M. BENNETT,  
GIVEN BY EDWIN L. COX

MR. SCOTT: Thank you, Mr. Chairman.

Carrol M. Bennett was a man dedicated to the oil and gas profession, and the members of the National Petroleum Council were deeply saddened by his death on June 11, 1978.

Mr. Bennett served as Chairman of the Board of Texas Pacific Oil Company for many years prior to his retirement in 1975, at which time he opened a management-consulting firm.

During his 36-year career in the petroleum industry, he was a member of the Board of Directors for all of Texas Pacific Oil's foreign subsidiaries, and for Seaport Petroleum, Incorporated. He also served on the board of Seco Communications, Joseph S. Seagrams and Sons, and Gaus Marine in Paris, France.

Mr. Bennett's broad experience reflected the capabilities of the man who initiated the merger of two oil companies, leading the resulting company to such growth that today it ranks amongst the 30 largest domestic-oil producing companies in the United States.

His expertise in the field of petroleum affairs is clearly demonstrated in his representation of 9 U. S. oil companies on the board of an Iranian oil consortium in London and Tehran.

1 In addition to his numerous business activities,  
2 Mr. Bennett devoted himself to Government service and to  
3 the National Petroleum Council. An active member of the  
4 NPC since 1966, Mr. Bennett served on both the  
5 Appointment Committee and Agenda Committee, and chaired the  
6 Nominating Committee for 1970-1973.

7 His outstanding leadership of the NPC Committee  
8 on Energy Preparedness was well proven when the Committee's  
9 charge expanded greatly during the Oil Embargo of 1973-74.  
10 Under Mr. Bennet's direction the Committee was able to  
11 respond to the emergency and prepared nine reports to  
12 assist the Federal Government with the emergency situation  
13 and its aftermath.

14 In addition to his numerous Council activities,  
15 Mr. Bennett was a member of the Department of Interior's  
16 Petroleum and Gas Union of the National Defense  
17 Executive Reserve, and was regional administrator of the  
18 Emergency Petroleum and Gas Administration.

19 By any measure, professional or civic, Carrol  
20 Bennett was a leader. He will be missed. Therefore, Be It  
21 Resolved: That the National Petroleum Council offer  
22 this tribute to the memory of its colleague,  
23 Carrol Bennet; and in so doing, extend deepest sympathies  
24 to his family. Be It Further Resolved: That on the  
25 8th Day of March, 1979, in the City of Washington, D.C.,

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1 that this Resolution be entered into the records of the  
2 Council, and appropriate counsel thereof be delivered to  
3 the family of Carrol M. Bennett as a remembrance of the  
4 affection and respect which we shall have for him always.  
5 Mr. Chairman, I move the adoption of the Resolution.

6 CHAIRMAN CHANDLER: May we signify our approval  
7 by standing for a moment of silent reflection.

8 This brings us to our final Agenda item. Does  
9 any member of the Council have any old business to bring  
10 before the Council?

11 (No response)

12 CHAIRMAN CHANDLER: Is there any new business.

13 (No response)

14 CHAIRMAN CHANDLER: Does any non-Council member  
15 have any comment they wish to raise at this time?

16 (No response)

17 CHAIRMAN CHANDLER: There being no further  
18 business, this Meeting is adjourned.

19 (Whereupon, at 11:07 a.m., the Meeting was  
20 adjourned.)

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REPORTER'S CERTIFICATE

DOCKET NUMBER:

CASE TITLE: National Petroleum Council

HEARING DATE: March 8, 1979

LOCATION: Washington, D.C.

I hereby certify that the proceedings and evidence herein  
are contained fully and accurately in the notes taken by me  
at the hearing in the above case before the

Department of Energy

and that this is a true and correct transcript of the same.

Date: March 9, 1979

*Eugene Arrow*  
-----  
Official Reporter

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